

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

1.45
C 732

COMMUNITY AND COOPERATIVE SERVICES LOANS

LIBRARY
RECEIVED
★ APR 4 1946 ★
U.S. DEPT. OF AGRICULTURE

Community and Cooperative Services loans are rural rehabilitation loans to individuals or to groups of individuals to acquire some service or facility needed by members of the group in their individual farming operations. Such loans are also made to individuals for participation in cooperative associations already established or proposed to be established. Such loans are made to assist farmers in attaining a higher social and economic standard of living through the cooperative use of services and facilities which in many cases could not otherwise be provided on a sound basis.

Experience has shown that there are many types of services, equipment and facilities needed by individual farmers, which no one of them alone can afford to own and operate for his sole use. Even if the farmer had or could obtain the funds therefor, the service might not be economically justified for individual use because of his limited needs. In such cases a group, ranging from two or three farmers to a large number in larger enterprises, may join hands and combine their individual contributions of capital, labor, and management, in order to acquire and operate the services or facilities needed for the promotion of their common interests.

A reorganization of farming units involving a change from a one-cash crop to a livestock grazing economy or some other crop diversification program has been necessary in many areas in order to establish rural rehabilitation clients on self-supporting family size farms. The farmer on a family-size unit often cannot justify the expenditure of the funds which would be necessary in order to provide for his sole use all the various types of services and equipment needed for the successful conduct of his operations on a diversified basis. The result is, that the farmer on the family-size farm often obtains necessary equipment or facilities, including livestock of an inferior quality or tries to farm without the necessary facilities. By using a Community and Cooperative Services loan, he can join with his neighbors to acquire equipment and facilities of standard quality which may be operated as an efficient economic unit and which can be justified on the basis of the group needs. This involves the establishment of more efficient operating units, the lowering of the individual capital and operating costs, and the removal of deficiencies which may exist in their farm and home economy.

The explanations given in the outline below are intended to inform the field personnel of the Farm Security Administration, present and prospective FSA borrowers, and field representatives of other agencies of the Department, in simple terms as to the different ways in which Community and Cooperative Services loans can be made. ←

1. Types

- a. Multi-borrower -- We think of this type where loans are made to all individuals eligible for rehabilitation loans who are planning to participate in the use of the equipment, facility, or service. All the individuals make equitable contributions

to the capital and they own and operate cooperatively the service which is established. In such cases the group through a committee or Board should select a competent manager or custodian who is paid a stipulated reasonable amount for his services. Any profits from the operation of the facility should be distributed on an equitable or proportionate basis to the individuals who contributed the capital for its establishment.

- b. Joint Borrower -- This term is used to designate those cases where loans are made to each of two or more borrowers to enable them to acquire a service or facility for themselves and others in the community. In this type of loan other participants are included to provide maximum use of the facility at a minimum of cost to all users. All users should, of course, pay reasonable fees for the services which they receive. The fees paid should be definitely agreed upon before the establishment of the service.
- c. Master Borrower -- This name designates the type of case where a loan is made to one individual to acquire and own in his own name equipment or a facility necessary for the rehabilitation of himself and other farmers, with the understanding that the other farmers who need the service will participate and pay the owner for its use. In such cases steps should be taken to see that the service is operated for the benefit of the group and not the owner only. Any profits over and above the necessary operating costs, including a reasonable compensation to the owner for the care of the equipment and amounts necessary for the orderly repayment of indebtedness, should be used for the benefit of the participants and in continuing the operation of the service on a true cooperative basis.
- d. Participation -- Loans are encouraged to eligible individuals to finance their participation in cooperative associations already established or proposed to be established. Such participation loans may be made to enable the borrower to obtain membership on whatever basis is provided for in the Articles of Incorporation or By-laws of a particular association; namely, purchase of stock, purchase of certificates of indebtedness or of interest, payment of membership fees, etc. It is believed that the rehabilitation of the borrowers or prospective borrowers of the Farm Security Administration can be aided through their participation in sound cooperative enterprises, and, therefore, increasing attention to this type of Community and Cooperative Services loan should be given in developing Farm and Home Plans for present and prospective FSA borrowers.

- e. Loans to Associations -- Although the development of Community and Cooperative Services through loans on an individual basis is the governing policy of the Farm Security Administration, loans may be made direct to associations under certain conditions when the enterprises cannot be soundly established and efficiently operated entirely through the individual types of loans described above. Reference should be made to Section 9 of this outline for more detailed information as to this type of loan.

2. Purposes

Community and Cooperative Services loans may generally be made for the purpose of acquiring any service, equipment, or facility, needed in the applicant's farm or home operations, provided the loan is justified as economically sound and the applicant otherwise qualifies for the requested funds. Some of the purposes for which such loans have been made in the past include:

I. Animals

- A. Boars
- B. Bulls
- C. Jacks
- D. Rams
- E. Stallions

II. Buildings

- A. Cold Storage Plants
- B. Curing Houses
- C. Storage Houses

III. Harvesting Equipment

- A. Binders
- B. Combines
- C. Corn Shredders
- D. Ensilage Cutters
- E. Mowers
- F. Potato Diggers
- G. Threshers

IV. Home Equipment

- A. Canning (Pressure Cookers, sealers, etc.)
- B. Laundry
- C. Sewing
- D. Weaving



V. Land Preparation, Planting, and Cultivation Equipment

- A. Corn Planters
- B. Cultivators
- C. Discs
- D. Grain Drills
- E. Manure Spreaders
- F. Plows
- G. Seeders

VI. Land and Water Conservation

- A. Liming and marl mining
- B. Terracing
- C. Drainage
- D. Land Clearance
- E. Wind Erosion
- F. Water Facilities

VII. Mills

- A. Feed and Grist
- B. Saw
- C. Syrup

VIII. Miscellaneous Equipment

- A. Balers
- B. Blacksmithing
- C. Butchering
- D. Hatcherics
- E. Plant Production (Hot beds and cold frames)
- F. Seed cleaning and treating
- G. Sheep dipping
- H. Sheep shearing
- I. Trucks and trailers

(B,C,F,G, and H, may be either portable or stationary equipment)

IX. Participation in Cooperative Associations

- A. Cotton Gins
- B. Electrification
- C. Environmental Sanitation Activities
- D. Forest Products
- E. Grazing
- F. Handicrafts

IX. (Continued)

- G. Health (Medical and Dental - Hospitalization)
- H. Irrigation
- I. Marketing
- J. Processing
- K. Production
- L. Purchasing
- M. Veterinary

X. Tractors

As the principle of cooperation becomes more clearly understood by FSA borrowers and our field personnel, the purposes for which loans are expected to be requested will increase in variety and number. The development of Community and Cooperative Services should be a progressive and continuing process as a result of a sound program of cooperative education.

3. Eligibility

Community and Cooperative Services loans may be made only to applicants who are already borrowers of the Farm Security Administration or who are eligible to become such. Generally, loans may be made only to applicants for whom sound Standard Farm and Home Management Plans have been prepared. Individuals who can obtain the needed funds from any private financing institution or other governmental agency are not eligible for rural rehabilitation loans. There is no objection to permitting farmers who are ineligible for rehabilitation assistance to participate in services or associations established with the aid of FSA funds under certain conditions. These other individuals should pay their proportionate part of the cost of the establishment and operation of the service. The loans for the establishment of the service should be justified on the basis of the benefits which will accrue therefrom to FSA borrowers.

4. Security

- a. Loans to individuals -- Where Community and Cooperative Services loans are made to standard RR clients, the security taken in connection with the Standard Farm Plan loan should be extended to cover the Community and Cooperative Services loan. In addition, a mortgage should be taken on the equipment or other property to be acquired with the proceeds of the loan. Usually it should also be required that the borrower or borrowers assign to the Government such portion of the fees to be paid for the use of the service as may be necessary in order to meet the periodic principal and interest payments.

The security available in the individual cases will vary. The general policy followed is that such security should be taken as will reasonably assure the repayment of the loan in an orderly manner. The view taken with respect to security is not to encumber the borrowers in such a manner as to impede their rehabilitation but to protect adequately the interests of the Government and to apply principles of financing which are sound in a program of supervised credit. Where loans are made to individuals to participate in co-operative associations, the security generally required is an assignment of the borrower's stock or other interest in the assets of the association, an assignment of the patronage or other dividends which may be declared and become due the borrower from the association, and an assignment of a specified amount of retains from such funds as may come into the association's hands from the handling of the products of the respective borrowers. When participation loans are made to standard RR clients, the security taken for the standard loans should be extended to cover the participation loans.

- b. Loans to associations -- Loans to associations are generally secured by mortgages on the personal and real property owned or to be acquired by the association. An assignment of such portion of the income in terms of a specified retain per unit, or a percentage retain from the total income, as may be necessary in order to meet the periodic payments on principal and interest, and such other security as may be available and practicable to require in each particular case may also be taken.

5. Repayment

- a. The repayment terms of Community and Cooperative Services loans vary according to the type of the loan, the purpose for which the loan is to be used, the ability of the borrower to repay and the character of the enterprise in connection with which the loan is made. The repayment period should not exceed the probable useful life of the equipment or other properties to be acquired therewith. It is not desirable in all cases to require loans to be repaid in equal installments, because of the period that may be required to obtain a maximum use of the facility and because of the practical factors which may result in an increased income from the operation of the service during certain portions of the repayment period. Loans should be repaid within the shortest period commensurate with the above general principles in order to free the enterprise as quickly as possible from the burden of debt and to establish the equity of the

members therein. Although longer or shorter periods are justified in some cases, the repayment periods for Community and Cooperative Services loans generally should come within the range from three to five years.

6. Basic Factors

Before loans are approved for the establishment of any group enterprise, it should be determined that the following safeguards have been observed:

- a. An adequate membership is assured through signatures to membership, participation or market~~ing~~ agreements evidencing the probable use of the facility to its approximate, maximum capacity.
- b. A budget has been prepared estimating all necessary expenses and all estimated income on a practical operating basis. There should be reasonable assurance of sufficient income to meet the estimated expenses, retire indebtedness in an orderly manner, and set aside adequate reserves for a sound and permanent program.
- c. The service or facility to be established should fit into the pattern and meet the standards of the programs of the various agencies of the Department of Agriculture for the particular area in which the service or association will be located. Before any loans are made to individuals to participate in any group activities, it should be determined that the farming operations of the applicants, especially insofar as they will be furthered by the group activity, fully comply with the Department's agricultural program in that area. The above refers to compliance not only with the Agricultural Adjustment Administration program but also with respect to utilizing the available technical services of the Soil Conservation Service and other agencies of the Department, such as the Bureau of Agricultural Economics, Forest Service, and Extension Service, and any other state or Federal agencies rendering an agricultural service to the area involved. All group enterprises financed in whole or in part with funds obtained from the Farm Security Administration should be consistent with the approved agricultural programs developed by the County Program Planning Committee for the county in which the enterprise will operate.
- d. Adequate protection for the members in the form of bonds and insurance.

1

1

6

0

- e. A satisfactory management for the operation of the cooperative enterprise. This is a highly essential point and every effort should be made to obtain competent management.

7. Educational Meetings

Before any Community and Cooperative Services loans are approved, there should be at least one meeting and preferably several meetings of the proposed participants in the service or members of the association for the planning of a definite program and the defining of specific objectives. The success of any group activity depends on the interest and loyalty of the members. The proposed participants and members cannot be expected to be interested in and loyal to a service planned for them by other persons and with which they are not familiar. Pre-organization and post-organization meetings should furnish the basis for a successful enterprise and should result in a sound program.

At such educational meetings the plan of operation of the group service should be discussed and developed. This planning should be directed not only toward the operations of the association itself but also toward a better understanding of cooperative philosophy and cooperative activity generally in order that the members may be better cooperators.

Assistance and advice by Farm Security Administration personnel should be offered to the extent necessary but not in such a way as to interfere with the full exercise by the members and their chosen representatives of the responsibility and initiative for the management and operation of the facility. The inherent character of a cooperative enterprise presupposes that the members shall own and control the facility, subject, of course, to proper guidance and supervision.

The normal operations of a community service or cooperative association should be a training school for agricultural leaders who will grow in experience and capacity to serve not only the group of which they are members but also the whole community in which they reside.

The available cooperative and other educational material should be used fully at meetings both of members of particular associations and services and of the members of larger groups of present and prospective FSA clients. The distribution of such material to needy farm families will not only foster an understanding as to the possibilities and benefits of group action but will furnish helpful information relative to the many practical problems faced by each individual farmer in trying to adjust his operations to fit into a sounder agricultural economy.

In addition to the increasing amount and variety of material being made available by the Farm Security Administration, the Regional Information Advisers should be helpful in obtaining copies of cooperative pamphlets and other educational bulletins which are available through the Program Study and Discussion Division, Bureau of Agricultural Economics, Department of Agriculture, Washington, D. C., and through the Information and Extension Division, Farm Credit Administration, Washington, D. C. Pamphlets are available through the Program Study and Discussion Division (Bureau of Agricultural Economics) which have been prepared for use of farm people in discussion groups.

8. Procedure for Developing Applications

In developing farm and home management plans for present or prospective FSA borrowers, many instances arise where services or facilities are needed by certain of the borrowers in order to make their farm and home operations sound, which no one of them can afford to own and operate for his sole use, or which cannot otherwise be economically justified. Where such conditions appear, the county supervisor should preferably call a group meeting of those borrowers who need a particular service in order that they may discuss the feasibility and desirability of establishing a group enterprise. The county supervisor should offer guidance and advice, but the responsibility for the organization of the enterprise and the development of the plan of operation should be assumed by the borrowers and participants themselves. Such group meeting or meetings should disclose the best method by which the service can be financed and operated. It is preferable that consideration be first given to the plan whereby all the persons who will use the service will make an equitable contribution to the capital required.

Where a particular problem is involved, the county supervisor may find it advisable to obtain the special assistance of the district supervisor or the RR cooperative specialist for the state in advising as to the best basis on which to organize and operate the service.

A simple form of application, FSA-RR 23, is prepared for the Community and Cooperative Services loans sought in connection with any one association or service. Acceptable forms of participation agreements and other loan and security instruments necessary to be executed are available through each regional office and are prepared to meet the requirements of the statutes of the states in each region. The county supervisors of each state have information as to the necessary steps in obtaining action on applications.

9. Loans to Associations

Experience in the rural rehabilitation program has shown that the Farm Security Administration can render most effective aid in the sound establishment and efficient operation of simple community services and other group enterprises through the making of loans to eligible individuals rather than through loans direct to associations. Therefore, the policy has been established by the Farm Security Administration of restricting Community and Cooperative Services loans for rural rehabilitation purposes for the most part to the individual type of loan. There do occur occasional cases when the peculiar practical factors involved justify the making of loans direct to associations. Before an application for an association loan is developed, however, there should be evidence that the association cannot obtain the necessary financing from any private institution, the Cooperative Bank Division of the Farm Credit Administration, or any other governmental lending agency. Any applications for loans to associations should evidence that the members have contributed or will contribute a substantial portion of the total capital needed, preferably at least 20%; that the group activity cannot be completely financed through the individual loan method; and that the association will operate primarily for the benefit and rehabilitation of rural rehabilitation clients and other low-income farmers eligible for rehabilitation aid.

The Community and Cooperative Services activities of the Farm Security Administration offer a splendid opportunity for cooperation with the Banks for Cooperatives of the Farm Credit Administration. When loans are proposed to be made by the Farm Security Administration to individuals to participate in a cooperative association, but the capital thus obtained would be insufficient to enable the association to properly conduct its activities, consideration should be given to obtaining the additional necessary financing from a private financing institution, the appropriate Bank for Cooperatives, or other governmental agency. The capital which might be obtained by the association through the loans made by the Farm Security Administration to the farmers eligible for such loans, plus the capital contributed by those members who obtain funds therefor from other sources, should be helpful to the association in meeting the eligibility requirements of the Bank for Cooperatives for financial assistance.

Each Farm Security Administration regional office has available for the information of its field personnel instructions concerning the loan and security forms which should be used in the preparation of such applications. Any application for a loan to an association for which the association itself, rather than its individual members, is to be responsible requires the approval of the Washington Office.

